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Trade, Commerce, and Commercial Crises

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LESCURE, J. *Les marchés financiers de Berlin et de Paris et la crise franco-allemande de juillet-octobre, 1911.* (Paris: Larose et Tenin. 1912. 2 fr.)

SCHMIDT, F. *Liquidation und Prolongation im Effektenhandel.* (Leipzig: C. E. Poeschel. 1912. Pp. vii, 283. 11.50 m.)

SCHWARZWALDER, W. *Die Entwicklung des Nürnberg-Fürther Exportes nach den Vereinigten Staaten von Nordamerika von seinen Anfängen an bis zur Gegenwart.* (Nürnberg: B. Hilz. 1912. Pp. vi, 143. 2 m.)

WEBER, R. *System der deutschen Handelsverträge.* Wirtschafts und Verwaltungsstudien, mit besonderer Berücksichtigung Bayerns, 43. (Leipzig: A. Deichert. 1912. Pp. xii, 464. 12 m.)

Accounting, Business Methods, Investments, and the Exchanges

The Work of Wall Street. An Account of the Functions, Methods and History of the New York Money and Stock Markets. By SERENO S. PRATT. (New York: D. Appleton and Company. 1912. Pp. xii, 440. $1.75.)

This is a revision and enlargement of the author's book of the same title published ten years ago. The changes that have taken place in the money and stock markets during this interval have been mainly those due to the commercial growth of the nation. The scope of Wall Street is divided by the author into four principal parts: (1) foreign exchange; (2) domestic credits or that part of the internal trade of the country which is settled by drafts on New York; (3) promotion, by which capital is directed into new enterprises; (4) stock exchange loans for both investment and speculation.

These branches of the money market are detailed fully and minutely in chapters 3 to 20, with admirable clearness, and without error perceptible to the reviewer. Most of the processes described are so familiar to the habitual readers of the REVIEW that a recapitulation of them would be superfluous. The Stock Exchange Clearing House, however, is a puzzle to many well-instructed persons. To this a chapter of eleven pages is given. The essential feature of this machine is the same as that of the Bankers Clearing House; that is, each broker settles all his trades with the clearing house instead of settling with the individual brokers. The transactions are reported to the clearing department by means of tickets, showing the securities and the prices. At the conclusion of the day's business the total is shown on a clearing sheet together with the net amount of securities and cash due from, or to, each broker. The borrowing of shares is included among the purchases, and the lending among sales. Of course many trades cancel each other in whole or in part, and the balance only is settled by delivery or cash payment. On the 9th of May 1901 (a panic day), the total sales of shares were 3,336,695 and the value of the share balances was $129,800,000 but the cash balances required to settle this great total were only $5,461,700, and the time required to make this settlement was no greater than it would have been if the sales had been only 100,000 shares. The saving of time, labor and negotiation of loans is enormous. The business could not be carried on in its present volume without the clearing system.

Chapter 24 on Panics might be made clearer by a definition of clearing house loan certificates. We are told on page 349 that when panic follows a commercial crisis, "banks contract their loans, forced liquidation sets in, weak houses are driven to the wall, failures are announced, general bankruptcy is threatened,

the clearing house is obliged to issue loan certificates for the protection of solvent firms temporarily embarrassed," etc. Again, on page 359 it is stated that, by the issue of loan certificates "the banks are able without fear to extend credit to their solvent customers and thus thousands of deserving firms are saved from failure." The only previous definition of loan certificates is on page 262 where they are said to be issued in times of dire emergency and are "in the nature of temporary loans made by the banks associated together as a Clearing House association to the members thereof for the purpose of settling Clearing House balances." This definition might convey to the mind of an uninstructed person the idea that the certificates were a kind of fiat money issued on the credit and responsibility of all the banks joined together, in which case there is no reason why there should be any limit to the amount of them. In fact each certificate of $5000 recites that the bank to which it is issued has deposited securities with the loan committee of the clearing house amounting to 25 per cent more than the face value of the certificate and that it will be received in settlement of debit balances at the clearing house. The manager of the clearing house will accordingly turn over the certificate, when it comes into his hands, to some bank which has a credit balance equal to, or in excess of, $5000. In other words the strong banks loan their surplus cash to the weak ones on the security of the bills receivable held by the loan committee, and receive compensation in the way of interest which the certificates bear. The clearing house is not responsible for the redemption of the certificate but only for the safekeeping and the redelivery of the securities. The limit to the issue of loan certificates is measured by the ability of the creditor banks to absorb them. Before this limit is reached it may happen that the banks begin to curtail the payment of cash to their customers over the counter. This is really bank suspension but the legal penalties of such default are seldom or never enforced.

HORACE WHITE.

The Principles of Bond Investment. By LAWRENCE CHAMBERLAIN. (New York: Henry Holt and Company. 1911. Pp. xiii, 551.)

The Work of the Bond House. By LAWRENCE CHAMBERLAIN. (New York: Moody's Magazine Book Department. 1912. Pp. 157. $1.35.)